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Editorial Comment . . .

WHO'S A CONFORMIST?

Every few years the pendulum of popular opinion swings around and the public begins to have self-doubts about "our way of life" as it is lived at the moment. Whether it is from Victorian complacency, Edwardian optimism, post-war disillusionment or the modern socialist trends, leaders in every age have sparked a reaction and the public soon takes up the hue and cry. At the present time, psychologists, social scientists, writers and business executives are asking, "Are we becoming a race of conformists?"

This is a particularly relevant question in business, for it is primarily our economic system that sets us apart from totalitarian regimes. The point is: "Do the outward signs of conformity that we exhibit really bode ill for our economic system?" To focus the lens even finer, does this mean that we, as accountants and managers, are hopelessly enmeshed in a net of our own making, bound by accepted practice and static ideas? It is sometimes argued that, because of the diversity of problems that different types of businesses present and the danger of stereotyped approaches, industrial and management accounting are subjects that can not and should not be taught.

This is a theory that is not particularly valid. It is just as sensible to say that a person who plays the piano by ear should never be formally taught the instrument, lest it spoil his style. Like harmonic principles, the principles of accounting are invariable. It is only in their application that we are apt to go wrong. A fine knowledge of accounting principles should never lead to accounting stagnation. On the contrary, in all reasonable expectation, it should provide a broader range of choice in which the practitioner is at liberty to exercise his divine right of free will and his God-given intelligence.

The key to the problem is whether he does actually exercise that privilege. Whether he does so or not will depend to a large extent upon his social conditioning. Throughout history there have been two types of social organization—the authoritarian one in which direction comes from without, and one based on a community of free will in which man is rationally convinced of the rightness of the principles for which his leaders stand and willingly follows them.

The two systems are a grand scale projection of the inherent tendencies that lie within every man in varying proportions—the drive for power and the urge to submit to something greater than himself. The psychologist Erich Fromm in his book *Flight from Freedom* has admirably outlined the personality types which these conflicting tendencies create.

The avant-garde of social critics have contended that, in business, as well as in other spheres, the individual is surrendering his right of dissension, selling his soul as it were,

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for a grab-bag of welfare benefits, social satisfactions, material pleasures and m mediocrity. They say the signs of the times are ominous and individuality is being stifled.

In the Western World, individualism has predominated to the extent, perhaps, of becoming a fetish. Excessive individualism undoubtedly had its place in the early days of our economic system when the system itself was a novel concept and had to be strong to survive. But, having reached maturity, our system can afford to shuck off the outward rites and symbols of its creed, much as the adolescent shakes off his exhibitionist tendencies when he becomes a man. In modern days of growing populations and shrinking national boundaries, cooperation and tolerance are more necessary than ever before. If we are to maintain the efficiency of our business system, we cannot afford to indulge in the luxury of lamenting the past, when conditions of life demand a new approach.

If we did not, by and large, agree in principle with our leaders, if we had no constitutional safeguards for our freedom of will, then there might be serious cause for concern.

The question, however, is one of social pressures and these have been defied before when the need has arisen. But is there a real need for popular dissension at the moment? May not this so-called conformity actually spring from emotional maturity, the ability to sense a changed situation and react intelligently to it, a more perfect compromise of the authoritarian and submissive instincts of man, when he realizes that a little more cooperation is to his own advantage. With a higher standard of education than ever before, the free man everywhere is conscious that the economic system which he endorses is under pressure from without and will do nothing to jeopardize it, provided, of course, that the system does not seriously conflict with his own interests.

At the same time his interest, his needs and social cravings, are being met as never before. The present social trends are the culmination of centuries of growing humanitarianism—the group solidity is an affirmation of one of man's basic personality traits. To say that man's social loneliness cannot be assuaged unless he gives up his independence of thought is a carry-over from the harsh ethic that permits of no enjoyment without guilt. Tempered by a long tradition of democracy and given the educational opportunities, man will use his extra leisure and the fruits of his labour to develop his intelligence and his freedom of thought. In hundreds of North American cities today, he is doing just that.

We say, then, that free will is still intact, that the social and economic structure is still sound and, if the need arises, the public will be heard from dissenting en masse.

With this kind of social background and the advantage of a good education in principles, the industrial accountant is in no danger of becoming a carbon copy of a text book.

SO YOU WANT TO BE A MANAGER*

By John D. Mundie,
Assistant Professor, School of Commerce,
University of Manitoba.

What types of managers are there and which type is most successful? How can the executive blend the objectives of all who have an interest in the business into harmony with the overall objectives of the enterprise? How can he best utilize the energies of his employees in carrying out those objectives? This article answers these among other questions and sets out prerequisite standards for success in management.

Once again the business section of our economy is called upon to exert the supreme effort to meet the challenges of that which it partly created, a recession. In order to do this, there is required a more discriminating selection and blending of the six basic elements of an enterprise—men, materials, machines, methods, money and markets. Considerable attention must be given to the proper selection, training and maintaining of the men who provide the goods and services needed by our society. Constant watch must be made for obtaining those materials which are best suited for the products required of our industry. Careful consideration is required in the purchase and utilization of the machinery needed to produce the desired goods. Diligent investigation is needed to find the best methods of utilizing the basic elements of an enterprise. Every possible effort must be made to effectively and efficiently utilize the money required to operate the enterprise. An eternal vigil must be kept to see that the fruits of our endeavours reach markets where they will be bought.

However, it is not sufficient to have just these six "M's", for in themselves they are meaningless. No matter how well they are measured and mixed together, no reaction will be forthcoming until some catalytic agent is added to activate these dormant ingredients. This catalytic agent is the seventh "M" of an enterprise—management. Management is that activity which enables the enterprise to achieve its predetermined objectives through the efforts of other people with the minimum expenditure of resources and effort. It is fundamental, being found in all undertakings whether in business or government, schools or homes. Nothing can take place or last without it. By adding management to the other six "M's", a reaction far greater than the sum of the efforts and contributions of the individual parts is achieved.

Those who perform the activities of management are managers or executives. These

*An address to the Lakehead Chapter of the Society of Industrial and Cost Accountants delivered on February 21, 1958.

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individuals plan, organize and control the operations of the enterprise and are responsible for the results obtained from their efforts. Those performing the functions of management are separate from the other members of the organization for it requires the performance of distinct activities and the application of specialized knowledge to carry out management properly.

INTEGRATING OBJECTIVES

When one becomes a manager he becomes a leader. The very definition of management indicates that people are the tools which a manager uses, so that through their efforts he is able to be successful. In order to achieve this success, a manager must be able to persuade those working for him to contribute their best efforts toward the achievement of the enterprise objectives; objectives which they know, understand and believe in. Objectives are the starting point of thought and action for any undertaking. If such objectives are to be meaningful, they must be known to all affected by them. This is achieved through adequate communications throughout the organization. However, it is not sufficient to inform people about objectives; they have to understand and believe in them. To do this, the proper techniques of direction and coordination are engaged and followed through with deeds that assure the fulfillment of these objectives.

Unfortunately, not all those affected by the operation of the enterprise have the same objectives. Each group has its own personal objectives which must be considered and satisfied if the undertaking is to continue. Professor R. C. Davis, in his book *The Fundamentals of Top Management*, distinguishes three classes of objectives—primary, collateral and secondary.

The primary objective concerns the requirements of the society in which the business operates. Under the private enterprise system, society grants business the freedom to operate through the right to own private property and regulates the business by means of governmental action. However, if the business is to remain in operation, it is required to satisfy the needs and desires of society by providing the desired goods and services in the required amounts and qualities, at the proper time and place, and at a price society is willing to pay. Any failure to satisfy this objective will result in society controlling the business more strictly.

Collateral objectives are the personal and social goals of the other groups affected by the operation of the business. For the employees, these goals are very personal and can be found in demands for a decent standard of living as measured by a satisfactory wage, fringe benefits, leisure time, etc.; acceptance and recognition by others in the organization; sense of ethical achievement through the performance of tasks which are challenging and make a contribution to the total operation of the business and society; and recognition as an individual. For the shareholder, the desire is a profitable operation of the business, the payment of good dividends and the making of a profit.

A private enterprise must make a profit if it is to continue to exist. Profit enables the undertaking to continue to provide a service. But profit is the result of other efforts. It is the reward society grants to business when it meets society's requirements. It must always be remembered that business exists to serve the public. The public does not exist to serve business. Finally there are the aims of the managers themselves. These are very personal goals: opportunity to develop and progress, financial security, power to make decisions and see them carried out, and prestige and recognition within the organization and in the community. It is essential that a manager must recognize these various

wants and desires and he should strive to achieve a harmonious relationship so that all parties will be satisfied. Failure to do this will result in the manager being deserted for leaders outside the enterprise.

The last class of objectives are called secondary objectives. These, the internal objectives of the organization, are needed so that the business will function effectively and accomplish its primary and collateral objectives. Thus a manager must recognize that various objectives do exist. Based upon this recognition, he is faced with the task of showing the various groups that, through voluntary cooperation, the accomplishment of the primary objective of the enterprise will result in the achievement of their own personal goals.

TYPES OF MANAGERS

What types of managers are there in business? Jack H. McQuaig, in his article "How to be a Boss" in *The Financial Post* of November 30, 1957, asserts there are three types of leaders. The first type is the autocratic leader, the sergeant-major who lets everyone know who is boss and who makes the decisions. Although he may be paternalistic and benevolent, he has his rights and his title and no one is allowed to forget that for a moment. In this situation, the manager does all the planning and those at his command do as they are told. There is a place for such a leader in time of emergencies when a decision must be made and carried out without consulting others. However a predominant use of this technique can only lead to grief and result in the falling off of morale, loyalty and cooperation. Often those who follow this technique are insecure in their jobs and surround themselves with "yes-men". They are afraid that someone else will turn out to be a better manager.

The second type is the laissez-faire leader. He is found at the other end of the scale from the autocratic leader and, as the name implies, is characterized by an absence of leadership. In this situation, the leader is afraid to make decisions or guide his subordinates. He leaves them to do things on their own, which soon results in chaos.

The third type of leader is one who is in between the two extremes—the democratic leader. Here is the man who recognizes the need for making decisions and at the same time consults his subordinates for their ideas and opinions. He allows his people to work on their own as much as they are capable of doing and yet has standards to which they have to comply. He recognizes the influence he has upon them and attempts to develop them to their fullest capacities. Perhaps this leader can be thought of as a coach training a football team. The first thing a coach does is create a desire within the team to play as a team and not as individuals. He works with each player and develops his particular talents, such as quarterback, lineman, backfielder or end. This requires teaching the players what is required of them. When the player does well, the coach is quick to commend his performance. When the player makes a mistake or does not come up to the standard expected of him, the coach constructively criticizes him by telling him exactly what he is doing wrong and how he might correct it. The coach realizes that discipline is education, not punishment. The same techniques are used by the democratic leader in business.

QUALITIES OF A SUCCESSFUL LEADER

Although it is very difficult to list the characteristics of the democratic leader, certain qualities are found in most leaders of this type. Not all successful managers have all these traits but they usually possess some of them.

A good manager has a high degree of intelligence. Much of his work is problem solving, a mental activity that requires the ability to judge, study and arrange all the complex inter-relationship of forces that make up a problem and its solution. However, more is involved than dealing with problems that arise from the present—a leader must be creative, originating new ideas and trends. Once things become routine, a manager has reached the end of the line and no longer contributes to the growth of the organization.

It is not sufficient to solve problems by evaluating all the facts, both separately and together—decisions must be made. Once a leader has taken sufficient time to review the matter, he makes a decision for which he is willing to accept responsibility. So often we have the habit of putting off until tomorrow, things which should be decided today. If a manager is unwilling to make a decision, somebody else will make one for him and perhaps not to his liking. Yes, one has to spend enough time to think a situation through, but one cannot afford to overthink.

If a leader is to guide others in the performance of their work, he must be technically competent in that work and have intellectual curiosity concerning it. This means that he has sufficient background knowledge of the activity to explain to others what it is all about. At the same time he keeps abreast of current developments in the field and tries to find new ways of doing the job. However, it does not mean that he knows all the detailed operations required for the performance of the activity. As a manager rises up the ladder to the top, he must stop being a doer and start getting things done through others. He lets someone else worry over the details.

One of the fundamental characteristics of a leader is his acceptance of responsibility. This is not found in all individuals, although it is often assumed that everybody wants to be a leader. Rather it is something that comes from within the person, an urge to make decisions and be responsible for them. Unless one is willing to render prompt service to others and appreciates the work of his superiors, he cannot expect to win and maintain the confidence of his followers. One must be willing to accept responsibility and to learn its meaning. This acceptance of responsibility goes beyond the dollars and cents of the balance sheet. The true manager recognizes his responsibility to others within the organization to act with integrity and efficiency. Then there is the overriding responsibility to the society in which the business operates. No executive is free to select techniques and objectives which are not consistent with the general welfare of the community. He cannot adopt objectives whose purposes are to deceive, to endanger the health or infringe upon the rights of others and ethics and morals in business mean much more than merely operating within the law. At all times, business executives should remember that they are ofteh imitated by others in the community and the characteristics that they portray will be the ones that future leaders will portray.

Since it is through the efforts of other people that a manager is able to achieve the predetermined objectives of the enterprise, he must be willing to delegate authority to others. It has been said that the sign of a good executive is "one who goes around with worried looks on the faces of his subordinates". Delegation enables an executive to grow, for he is able to get more things accomplished through it than if he were to try to do everything himself. This means choosing subordinates who are capable of doing different things rather than selecting a group of rubber stamps who can only perform the same tasks. In order to accomplish this, the leader has to take an interest in his assistants, know their capabilities and weaknesses and be willing to develop them. Such a leader finds consider-

able satisfaction in helping others and seeing them grow for he knows that their growth is his growth. Once authority has been delegated, a bond of trust is created between executive and subordinates, and he is ready to back them to the full.

R. W. Peters wrote that "Good communication is the foundation of sound management". If one is to lead, others have to be told what is to be done in a way that they will readily understand and be willing to follow. At the same time, he must be able to understand what others are trying to say in order to convince them of his ideas and show how such ideas will enable them to satisfy their wants and desires.

Previously it was mentioned that a manager is creative and uses his imagination. However, this does not mean that he is a dreamer. A manager accepts things as they actually are—not how he had hopes they would have been. One has to face reality, be willing to accept new ideas and suggestions, and to make changes and improvements. This requires an objective viewpoint. In judging the facts and in reaching a decision, personal biases will have to be reduced to a minimum so that the best decision is reached in light of the actual circumstances. This is not easy.

There is no room in the executive ranks for one who lacks courage and conviction. A good executive is determined to meet difficulties without becoming discouraged. He is willing to undertake the most difficult tasks and not build up imaginary hurdles which will prevent him from attaining his goal. Once he has made a decision, he stands behind it. Anyone who panics when subjected to criticism is not a good executive. This does not mean that the executive will carry out the decision no matter what happens, rather he will stick by his decision uutil it is proven wrong. If it is proven wrong, then the executive must be willing to admit the mistake and correct it. Religion also plays an important role. Religious belief will help the executive over the rough waters of his life. Only by having faith in something greater than himself can he meet the challenge of his work.

Often we hear of the man who lives, breathes, and eats his job. His whole life is dedicated to his work. This man is not a good executive. It is true that as a person accepts more responsibility in an organization, more demands are made upon his time by the organization. But a good executive develops outside interests. These benefit his work. He does not neglect his personal life, his family or his health. By developing these other interests, he brings new ideas and fresh approaches to the problems facing his enterprise.

Finally, there is the characteristic of being self-managed. Perhaps this underlies all the others mentioned. This means that the executive sets standards of performance for himself—standards which are higher than those set by society or which he would expect of his subordinates. Once these standards are established, he objectively evaluates and disciplines himself in order to reach them. Only by undertaking this requirement can an executive ever know himself, his weaknesses, and how to overcome them. If he can do this, he will become a true manager, capable of blending together the basic elements of an enterprise so that the predetermined objectives of the enterprise are achieved through the efforts of other people with the least expenditure of resources and effort.

FOR FURTHER READING

THE MEASURE OF A MANAGER, by C. A. Efferson, The Management Review, March 1958.

MANAGEMENT CREEDS AND PHILOSOPHIES. Top Management Guides in Our Changing Economy, by Stewart Thompson, AMA Research Study No. 32.

TOPICAL comments

by N. R. Barfoot

LOOKING AHEAD

A new look in labour-management bargaining is emerging. Quite a few companies are working out a single offer which they consider fully right by every reasonable standard. This will be liable to modifications if new light shed on the subject by any source warrants it. They will strike rather than give more or engage in "horse trading" over terms.

Long term relations should be improved by the above method of a well-prepared, and fair line in bargaining.

By 1970 our national income and gross national product may exceed the United Kingdom's.

We will export $7 million worth of Christmas trees this year. Quebec, New Brunswick and Nova Scotia supply 70% of the New England requirements.

3.4 million houses should be built in Canada during the next 25 years. Annual rate will be around 120,000. Eight out of ten will be bungalows.

Record sales volume for 1958 is forecast. Chief supporting element is consumer demand. There are 500,000 more customers this year over last and purchasing power has been augmented by rising income.

OF GENERAL INTEREST

Population

100,000 new people arrive each day to swell the earth's population.

The population in 1950 reached 2.5 billion, which took thousands of years. In 1990 this figure will be doubled.

Advanced medical care and improved nutrition can be credited with much of the accelerated growth.

A generation ago one-half of all new-born babies died before reaching adulthood. Now 90% of them survive. In addition the aged are living longer.

In many nations the annual number of births per 1,000 of population is now 45 while the number of deaths is 10 per 1,000.

By 1975 Asians will lead the rest of the ethnic groups by 1.5 billion compared to the .5 billion lead at the moment.

It is estimated that the U.S. and Canada combined will have a population of 312 million by 2000 A.D.

Greatest increase of all, based on present trends, will be in Latin America where the population will increase 263% by the end of the century to 592 million.

Canada, for example, now has 20 people per square mile. Japan, a much overpopulated country, has 582 people per square mile and will have 989 by century end.

Fire risk in Canada

Canada's fire loss record is one of the world's worst.

Last year there were 84,307 fires, 1,149 more than in 1956.

640 people burned to death.

The past decade shows 5,337 lives lost, 16,000 others scarred and disfigured; $967 million worth of property destroyed and 686,202 fires.

The real attack must be made by the ordinary householder and plant manager. It is up to all of us to get rid of the hazards which start fires.

Canada's Coal

We have 100 billion tons in our own coal reserves but import more U.S. coal than we use of our own.

The problem is simple to understand. Canadian coal reserves are in the West and Maritimes. The major market is in the manufacturing belt from Montreal to Windsor. American coal is available 500 miles south of this market, where it is more cheaply produced and hauled.

1957 imports were about 18 million tons. Requirements for thermal plants and steel ovens may be as high as 60 million tons by 1980.

Work is being done on improving the economics of mining, hauling, storage and handling, but it seems apparent some form of subsidy will be necessary to make it possible to use more Canadian coal.

ON THE PERSONAL SIDE

Juvenile insurance is becoming big business. Advantages are low premiums and the development of the savings concept at an early age. Average annual premium under one year is $11.50 per $1,000. At age 5 this is $12.00 and age 15 shows $14.75.

To build your own vintage automobile is now possible. A knocked-down kit is provided for a 1958 version of a 1903 auto. Top speed is 35 miles per hour—horsepower 4.8. Comes with tiller, polished brass headlights, bulb horn and wooden spoke wheels. A Canton, Ohio firm will supply for about $900.

Buy your swimming pool now. Bargains are in order. Over $5 million was spent this year on backyard pools. About 2,000 pools are bought each year. They are made variously from concrete, aluminum and plastic reinforced Fiberglas. Prices range from $2,000 to $5,500 for residential pools. Institutional installations may run as high as $100,000.

Credit cards are modern magic money eliminators. Oil and gas credit cards have been used for a long time. Today you can purchase meals, drinks, flowers, rental cars, hotel and motel accommodation and so on. Loss ratios are surprisingly low. One hotel chain has nearly a million credit cards in operation accounting for 50% of its business. T.C.A., for example, handles 25% of its business on credit cards. The Diners' Club has 680,000 members and offers over 15,000 charge accounts. The trend is towards a master card covering everything.

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DECENTRALIZATION OF OPERATIONS AND CENTRALIZATION OF ACCOUNTING

By Herbert O. Brayer,
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Director of Professional Relations,
Arizona Blue Cross-Blue Shield.

Centralization versus Decentralization? This is one of the most controversial and tantalizing questions facing management today. Though neither system leads to guaranteed success or failure, the author points out, there is a lot to be said on both sides of the question. In this paper he explores fact and opinion from authoritative sources and draws his conclusions on the subject, emphasizing how the trends will affect the industrial accountant.

So emotionalized have become the subjects of Centralization versus Decentralization in the allied functions of corporate accounting and management that some of us view the whole matter as a dark, insidious Lorelei threatening our long established and proven methods, while others see in it a glorious panacea to rapidly expanding and often unwieldy administrative growth. Rather than argue the dubious conclusion that either course leads to eventual corporate chaos or corporate efficiency, our purpose here is to examine the mounting body of evidence relating to both views. Will either in itself lead to more effective controls, sounder short and long range planning, and smoother and more effective administrative operations? Will either produce a better management armed with knowledge based on valid, readily available information—on timely facts essential to a prompt determination of a precise course to a desired goal?

It is not possible to give a broad, over-all answer to such sweeping questions. But it is quite in order, and highly profitable, to examine some very significant evidence bearing upon the factors involved in the answers. The subject is one in which the evidence—regardless of how weighty—must be related to specific situations. Loose generalizations in the field of management are always dangerous or at least suspect. Actually, one may neither view with alarm nor point with pride to the failures or successes of centralization or decentralization. Regardless of basic and, in a sense, the elementary principles involved, the subject has become one of the most controversial facing modern management. Some specific cases support those who find alarm in the very concept of decentralization of accounting, while other cases highlight the dangers inherent in centralization.

A number of small and medium-sized companies recently have gone through the administrative pangs of centralizing both the accounting and the productive operations of

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decentralized organizations. Simultaneously, both the accounting and operation of centralized companies have been newly decentralized. Not only have such corporations had to reorganize their basic accounting systems and procedures, but they have also had to re-evaluate and modify the traditional control concepts under which they were founded and developed.

Only one generalization seems pertinent to all cases, which is that each case must be evaluated on its own merits and in its own peculiar situation. Neither the atomic age nor new electronic developments have challenged or altered the basic accounting and management principles which must be applied. Decentralization or Centralization—both are but physical methods of organization through which management seeks to attain its goals, yet neither is the goal itself. It would be ludicrous, therefore, to expect that either will answer fully the question of what is best suited for a given business. The real answer will be found in effectual management regardless of type of operation.

IMPLICATIONS FOR THE INDUSTRIAL ACCOUNTANT

That this subject is particularly pertinent to industrial accountants, whatever the size of their company, is clear. The expanding role of the cost accountant under the pressure of unprecedented competition, widespread diversification, the tremendous growth of capital expenditures, and the rapid rise in operating costs, has made him more conscious of—and more affected by—the need for more timely and sharply defined information as the basis for effective management operation, control and planning.

The modern accountant is called upon for more than his traditional role of maintaining accurate books of account or controlling costs. First, he must examine, analyze and interpret. Second, he must assist in providing not only the information necessary for current controls over present activities but, based on facts which he develops and analyzes, he must point out to top management the financial aspects and operations implications of contemplated actions. This is part of the evolutionary development in management through which the figure-work of the accountant has changed from what was once labeled a "necessary evil" to the full recognition that he is now part of a finance division which is actually an equal partner today with research, engineering, manufacturing and sales in the successful operation of any business, large or small. Third, by the use of modern techniques, systems and procedures—sometimes in combination with new high speed mechanical and electronic equipment—the modern industrial accountant can contribute *directly* to the profit-making potential of his company in a positive sense rather than in the strictly negative sense of historical reporting for straight control purposes. In this sense, the modern industrial accountant is no longer just a handler of historical figures, black or red as the case may be. Fourth, the industrial accountant is, in fact, part of an over-all company "intelligence system"—the "G2" section of a business—out of which comes the significant information and sharp-angled analysis by which a dynamic company is and must be operated.

In accordance with these unassailable principles, our role is in the present and in the future—rather than the past—and the accountant's interest in the debate over Centralization and Decentralization is no longer academic. It is *one of action* in a specific type of situation and our exacting role in that action.

SOME ASPECTS OF THE PROBLEM

Actually, some confusion regarding this controversial subject can be quickly eliminated by definition. What is required is a simplification of the meaning of Centralization in relation to Decentralization. For this discussion (and recognizing that definitions always have exceptions), two factors are involved in each term: First, the centralization or decentralization of *management*—the top policy-making, controlling and planning echelon. Second, the centralization or decentralization of the *accounting* or record-keeping functions with which the accountant is so directly concerned. The subject is further complicated by a relatively new element which, because it enters directly into both the management and accounting functions, has tended to confuse both by seemingly merging a part of each. This is the rapid technological development of information handling, the influence of new high-speed equipment capable not only of providing information more quickly and accurately and in larger units than ever before, but of "using" that information to reduce other logical facts and guides—facts and guides gained only recently by human reasoning and time-consuming handwork.

To contribute to the confusion, we have coined titles which themselves conflict in meaning—*Integrated Data Processing* which is actually a concept and not a system or equipment, and *Electronic Data Processing* which has the delightful if somewhat confusing effect of lumping equipment, concept and system. Is there any wonder that confusion has arisen among those who have not been in direct contact with these multiple developments during the past decade?

At the risk of over-simplification, let us assume in this discussion that we are dealing solely with the two basic situations—management centralization or decentralization, and accounting centralization or decentralization. In this brief review, simon-pure mechanics are avoided simply because by now it is clear that to a greater or lesser degree most of us are already using some of the new equipment plus the more traditional working units for management and accounting purposes in both centralized and decentralized companies. This being true, the significant problem is the type of organization best suited for our particular purpose. Should it be:

1. A centralized management with a centralized data processing or accounting section?
2. A centralized management with a decentralized data processing or accounting setup?
3. A decentralized management with a centralized accounting division?
4. Or a decentralized management with a decentralized data processing and accounting organization?

Of these four combinations, it must be obvious that the type of organization which is best for your specific company is one tailored to your specific situation. It is even invalid to say that a specific answer can be given for an entire industry or that, because others in your industry successfully use a decentralized system, it would work best for your company. Outright hammer-and-tongs controversy has developed over this fact for this reason: Too many of us have tried to equate success of centralization or decentralization in other companies with that which might occur in our own if we followed suit. The plain truth is that companies using each type of organization have been successful in like fields, territories, and the manufacturing and sale of the same products or services.

SURVEY SHOWS OPINION DIVIDED

Some months ago, I conducted a nationwide survey among some 300 accountants, controllers, vice presidents and presidents to determine their experience in regard to centralization and decentralization and their opinion as to whether so-called new techniques and equipment would materially affect their organizational structures. Here are a few results of that survey:

1. Operating personnel—particularly top level management—strongly favoured decentralized operations.
2. Accounting personnel, including finance officers at the controller's level, strongly favoured centralized operations.
3. In defense of decentralized operations management pointed to these advantages:
   - (a) Greater stimulation to operating management.
   - (b) Closer and improved control of operations—with the actual profit-making centres having better operation and planning as a result of the decentralized management being closer to the operating unit and its problems.
   - (c) Better competitive position as a result of being nearer to source of supply, or closer to markets.
   - (d) Smaller administrative units, thereby easing the problems of management and control.
   - (e) More versatile operation; easier to change systems and methods.
   - (f) Improved labour administration.
   - (g) Less vulnerability to economic pressures.
   - (h) Improved evaluation of decentralized unit performance.
   - (i) More rapid clerical operations at decreased costs.
   - (j) Decentralized management freed from responsibility of supervising routine clerical functions.

At the same time these disadvantages of decentralization were noted:

- (a) Increased personnel problems, particularly in securing adequate management personnel as well as supervisory and trained staffs.
- (b) Higher costs in some instances, particularly in pyramided management costs and capital investment.
- (c) Loss of combined purchasing in some instances.
- (d) Loss of some over-all management direction and concepts.

In defense of centralized accounting and management, the same ideas were expressed exactly, in reverse. In addition, some executives noted:

- (a) There are undoubted gains to be had from centralized accounting.
- (b) There are gains—although these were never fully spelled out—from having management personnel completely centralized.
- (c) It is possible to provide centralized management with better opportunities for advancement, or at least higher pay for the same jobs, since the management group is smaller, and funds don't have to be spread over larger decentralized groups.
- (d) Insofar as administrative operations are concerned, the costs are lower with less need for short-supply labour groups such as those in the critical clerical field.

It is obvious, therefore, that there are advantages and disadvantages to both centralization and decentralization of management and of accounting functions.

WILL NEW TECHNIQUES ENGENDER ORGANIZATIONAL CHANGES?

Insofar as new mechanical and electronic techniques and concepts employed in accounting are concerned, the results of the survey did show quite clearly that they are *equally effective* in either a decentralized organization or in one which is centralized. The real point here is whether they will, in themselves, trigger off a change in management organization or in accounting procedures. Donald Mitchell, president of Sylvania Electric Products Company, struck directly at this question:

> "What effect will data processing, computers, and automation have on management organization? Is decentralization on the way out? Will electronics reverse the trend and bring back centralized management?
>
> "At Sylvania, we believe that this neither should nor will happen. Data processing systems will help all levels of management. They will allow management to operate more effectively with faster and better information, but will not eliminate the need for decentralized authority and responsibility.
>
> "Decentralization is a concept based not on the speed with which information is received, but on the philosophy that an organization operates most effectively when authority and responsibility are delegated down the line to autonomous units, which function under the broad framework of policies established by corporate top management."

HOW WILL DATA PROCESSING AFFECT ACCOUNTING ORGANIZATION?

Actually, in this survey, not one executive in ten either believed or foresaw a reversal of the trend toward decentralized management! But there was a difference of opinion concerning the desirability of centralized versus decentralized accounting and clerical operations resulting from new equipment or from the concept of integration. Howard M. Thorston, Jr., procedure authority for B. F. Goodrich Company in Akron, Ohio noted that:

> "The determining factor in the effect of new data processing equipment upon decentralization will be answered largely on the basis of cost savings.
>
> "One of the major considerations is 'the purpose of the decentralization'. Insofar as decentralization is being done to achieve more effective operating controls by regrouping functions into more easily controlled units, electronics will not affect the trend to decentralization. If the decentralization has involved large clerical functions and the operating control is still centralized, electronics will tend to reverse the trend.
>
> "I do not anticipate that the 'service centre' concept of data processing is going to be used as extensively as many people predict. The expanded use of specialized electronic equipment and the natural desire of operating divisions to control their own data processing will limit this practice.
>
> "The use of high speed office equipment is certainly going to speed up the reporting of information for inventory control, production planning and scheduling, sales reporting, and general accounting. A certain amount of combining of clerical functions, which are now segregated, is inevitable. Insofar as plant dispersion, and functional decentralization (are concerned), I anticipate little effect from the use of electronic equipment . . ."

It appears, then, that the heart of the question may be in the field of centralizing *certain specific accounting and related data processing operations.* Charles W. Adams, of Westinghouse Electric Corporation, puts it this way:

"Electronic data processing equipment will certainly cause a trend towards centralized accounting and clerical operations. Since it permits better and more timely condensation and analysis of management information, it will partly offset the primary reason for decentralization in administration: namely, that no man can keep up with the day-to-day operations of an extensive business. Thus, data processing will not necessitate centralization, but will certainly not encourage decentralization."

To which the distinguished systems authority, J. D. Elliott of The Detroit Edison Company adds,

". . . newly developed equipment will have a tendency to promote the centralization of record-keeping activities. However, with present and future rapid means of communication such as teletype tape and IBM's "Transceiver", the trend toward centralization will be by no means complete."

Before nodding in quick agreement at what seems to be a conflicting opinion on fundamentals, however, consider this recent observation by one of the leading students of the problem, Ben S. Graham of the Standard Register Company:

"It seems to me that *with* the high speed of communication and the data processing facilities available, decentralization can be facilitated. With these facilities, we can transmit information and mechanize the monotonous routine jobs that require little intelligence. The same facilities should make it possible to decentralize and delegate responsibility, leaving more of the intelligent jobs and the decision-making to the local level. Information that may be needed by the local people in making decisions can be more readily available with improved communications and high mechanization.

"In the past, one drawback to decentralization of production facilities has been the need to duplicate many of the accounting and data processing facilities in the various plants. With instantaneous communication and the ability to create a medium which will operate other machines, billing, accounts receivable, credit control, inventory control and probably much of production planning, can be mechanized in a central location. All of these activities except production planning are related to specific conditions and can be mechanized. Production planning, even if computer facilities with linear programming, balancing production, or other phases of operations research are used, does involve decision-making on the part of individuals after the machines have contributed their part. These decisions could be made using the machine facilities at a top level basis and presumably by the best minds in the business on a centralized basis.

"On this reasoning, production or warehousing facilities could be decentralized and the undivided attention of the local management could be devoted to the actual problems of producing or warehousing within the scope of the broad direction supplied from the centralized source.

"Increased centralization of the functions which do not require top management intelligence or decision-making such as sorting, summarizing and routine analyzing of data—the billing and the accounts receivable functions—and the broad planning of production or warehousing of products, would result. Many organizations with

production or warehousing units scattered over the country with each unit too small to be able to use advanced mechanization for guiding decision-making or for actual accounting work, could then centralize and mechanize these functions. Actual production or warehousing could be the complete responsibility of the local people but with the advantage of presumably more effective over-all planning and control.

"To summarize it briefly, *what to do* would be centralized. *How to do it* would be decentralized. The local management people could then concentrate on managing more effectively."

OTHER OPINIONS

Mr. Graham has some very qualified supporters of his primary thesis. Luther A. Harr, Jr., now with Sperry-Rand and previously part of Dr. Mauchley's staff before UNIVAC joined the Rand family, conmments:

> ". . . the trend toward decentralization in administration will not necessarily be affected by the wider adoption of electronic data processing equipment. It is certainly true that the inherent capacity and speed of electronic equipment implies that a large volume of data must be present to justify the economics. However, the development of adequate communication equipment is expected to bridge this gap. The entire area of communication is an extensive one as is the development of electronic data processing equipment, and it is believed that the eventual outcome will allow centralized data processing to work side-by-side with decentralized management or operations . . ."

It would be redundant to cite dozens of other experts who concur in this view, but because of their experience and somewhat different approaches, two other specific statements are valuable. After pointing out that his company has 11 divisions spread from California to New York with 3,500 employees, Robert S. Breckenridge of the Sutherland Paper Company of Kalamazoo concludes,

> ". . . we do not feel that either the new techniques or equipment will affect decentralization of administration. Rather the opposite. There will necessarily be centralization insofar as usage of large-scale electronic accounting and data processing equipment is concerned. However, due to improved methods of automatic communication, this system will allow an increase in decentralization with electronic equipment operating as the "Home Office Workhorse". One of the main draw-backs of decentralization has been the cost of data processing at each point. Where decentralized points can feed information into a central machine, we then feel that decentralization can be furthered at an increased rate."

A. H. Seed, Controller of the Superior Separator Company spelled out this concept last year for the N.A.C.A. in describing the functions of *centralized financial control within a decentralized accounting setup.* He pointed out that the basic philosophy of a centralized accounting organization is that it is intended to be that of a service and not one of wielding a big stick. He enumerated, for example, the following specific items in the financial and accounting area requiring central review in order to maintain centralized corporate control:

1. Budgeting and standards
2. Financial statements
3. Chart of accounts
4. Cash requirements, bank accounts and investment of company funds

5. Authorization of cheque signatures
6. Deviations in sales terms, discounts and prices
7. Inventory valuation, write-offs and programs for acquisition or disposition
8. Authorizations for capital expenditures and capital dispositions
9. Insurance coverage, execution of surety bonds, and settlement of claims for losses
10. Borrowing from all sources
11. Tax reporting and payments
12. Contracts and royalty agreements
13. Lease agreements extending beyond the current year
14. Dividend cheques and all transactions affecting capital stock
15. Pricing formulas and mark-ups
16. Annual budget and budget revisions
17. Projects beyond those in approved budgets
18. Changes in procedure affecting either taxes or financial control
19. Arrangements with independent auditors

Mr. Seed continued that it is difficult to assign positive value to the decentralization of the accounting function since accounting is one of many indirect services which contribute to the success of a business. But, in his own organization, it was observed that decentralization has contributed toward creating better accounting to meet specific divisional needs. It brought accounting closer to the people who make the decisions which account for the success or failure of the business. In the final analysis, the accountant's commodity is paperwork, records and reports. The value of this commodity varies in proportion to its use, and it is more likely to get prompt and thorough attention where it is applied directly. Since each division has its own set of books, balance sheet and profit and loss statement, it has been possible to apply this principle on smaller units of the business and with more objectivity than before decentralization took place. It is easier to spot the return on investment within the individual division; easier to pinpoint unprofitable situations and for decentralized management to take corrective action. This is the cooperative effect of decentralized accounting and decentralized management in this one organization.

On the other hand, Mr. Seed acknowledges that decentralization has created duplications in clerical functions; four sets of books are certainly more expensive to keep than one, and four locations are more expensive to audit than one. There is the need for monthly consolidation of financial statements, and inter-company accounts must be reconciled. Shipments between divisions must be priced and recorded on two sets of books. Thus, he points out, each accountant has become a "jack of all trades". He writes collection letters, analyzes costs, prepares statements, assists with budgets, and counsels with the management of his division. Timing has also become an important problem—one late statement can delay the consolidated balance sheet. "However," he concludes, "it has been our experience that the increased effectiveness of the division, or decentralized organization of our accounting function, has, in the long run, more than offset the additional expense of the duplications and the new problems which have been involved."

CONCLUSION

Our conclusion from this nationwide survey of those actually engaged in operating centralized and decentralized accounting systems in which either the new equipment or

techniques are involved is simply this: (1) the new electronic complex necessarily results in more centralized processing of information because it can handle so much more data than was true with our older methods and equipment. (2) increased emphasis on new techniques, systems and methods—with or without new equipment—nevertheless can and is making widespread improvements in both centralized and decentralized accounting areas regardless of the size of the company or the type of business involved. (3) it is already clear that the new equipment can actually be used effectively in either centralized or decentralized organizations. Electronics can be used—as Ned Chapin points out in his textbook—to further centralized management because of its ability to process large amounts of information at high speed, and to report the results quickly and accurately to a nearby management group. Or, that same capacity and speed can be used to report results to widely dispersed and decentralized management groups. Data processors, as such, do not work toward or favour either, but they can be used in a manner that results in increased centralization or decentralization of management. It is *not* the type of equipment but the type of system that is devised for its use that determines whether centralization or decentralization of management is furthered by its use.

It would be wishful thinking to imagine, however, that decentralization doesn't produce distinct problems and call for some sacrifices on the part of the accountant.

Regardless of which type of organization his management selects, the accountant's problems are manifold, but the key is the service he performs, not his sacrifice! As Arthur S. Hudson of Chrysler Corp. points out in discussing this problem, "The policies and affairs of a company are not controlled by a company's accounting procedure." The question, therefore, is simply, "Can the Cost Accountant develop as effective a means of carrying out his functions under one system as under the other?"

My answer to the general problem is an unqualified yes. Any change, however, has built-in hazards and sand-traps and it is clearly evident that with our modern techniques, our improved means of communication, our high-speed and labour-saving accounting and data processing equipment, a system of accounting can be readily engineered and operated to fit the effective and profitable operation of the business. Thus, the specific requirements of any accounting and management system are these determinants—sales-mix and distribution, raw material logistics, available personnel and the relative disposition of all factors. And in this system the role of the Industrial Accountant necessarily takes on a new and greatly enlarged importance. He is no longer part of the routine clerical team, but an integral part of the top management team.

FOR FURTHER READING

HOW MUCH CENTRALIZATION OR DECENTRALIZATION OF THE ACCOUNTING FUNCTION? by Robt. A. Morgan, N.A.A. Bulletin, Sept. 1957

CENTRALIZED CONTROL IN A DECENTRALIZED ORGANIZATION, by J. A. Murphy, Management Methods, Oct. 1955.

OPERATING UNDER DECENTRALIZED MANAGEMENT, AMA General Management Series No. 144.

The Economic SCENE . . .

by W. Allan Beckett

CANADA AND FOREIGN TRADE

Considerable attention has been focussed on the problems of Canadian foreign trade in the last year or two. During the hectic boom years of 1955 and 1956, great concern was expressed over the heavy imbalance between exports and imports, with an adverse deficit running as high as one and one-third billion dollars. The relative decline of Canadian manufactured exports and the increasing dependence on a few staple commodities have been questioned. The Prime Minister himself has viewed with alarm our growing dependence on the United States as a market for our exports and a source of supply for our imports. From time to time, statements have been made which imply a conscious effort to promote diversification. More recently the Commonwealth Trade and Economic Conference has made a beginning to promote closer trading and economic relations between Canada and sister members of the Commonwealth.

One problem that is frequently in and out of the news, is back in again—the tariff question. Tariff protection, according to one leading Canadian economist, reduces our living standards by 3½ to 4½%. In 1958 this would amount to $1.0 to $1.3 billion out of a national output of some $32.0 billion. These are rather startling figures and deserve careful consideration by all Canadians.

The estimate of the "cash cost of the tariff" appears in a recent study entitled "Canadian Commerical Policy" by J. H. Young, one in the series of studies on Canadian economic problems that form part of the Gordon Report.*

Dr. Young bases his estimates on the differences between Canadian prices and world prices for a wide range of products during the year 1954. It will be noted that this method does not state a comparison between existing prices and those that would prevail if there were no tariffs at all. In the latter case a few prices might be higher; but many would be lower and the assumption is that prices over all would be somewhat less.

For the year 1954, it is estimated that tariffs resulted in Canadians paying an extra $90-95 million for food, about an extra $100 million for clothing and household furnishings, an extra $75-100 million for cars and construction goods, $100-150 million for machinery and equipment, and lesser amounts for other goods. The grand total for the year 1954 adds up to something between $600 and $750 million.

After detailed study of the history and structure of the Canadian tariff, Dr. Young concludes—"increased protection will lead to economic losses and decreased protection to economic gains for the country as a whole."

All right, let us wipe out the tariff and gain an extra billion dollars in total output, recover that 3½% in lost living standards.

But, wait a minute! What will happen to the factories that produce the cars, shoes, clothing, textiles, and other items falling within the category of so-called protected industries? What will happen to those who work in these factories? to those who manage them? to those shareholders whose savings are invested in these businesses? Will they

*The Royal Commission on Canada's Economic Prospects. The report and its several studies are available from the Queen's Printer, Ottawa.

not all be submerged in the flood of imports that ensues when the tariff dykes are breached?

Yes, of course they will. But, the economist replies, only in the short run. Selective lowering or removal of tariffs will create some immediate dislocation; but if we can maintain reasonably full employment, the resources now employed in the protected industries —the men and the capital—can shift into other, and possibly better-paying industries in which Canada is more efficient than other nations.

The problem is that once a tariff structure is created, like a price increase or a tax increase, it is difficult to dislodge. And there are some very good reasons for instituting a tariff in the first place. One of the earliest arguments in favour of a tariff was to provide governments with revenue. This has less relevance in today's world of income and corporation taxes. Customs duties in Canada, for example, provide only about 10% of federal revenues compared to 40% a generation ago.

Another argument in favour of tariffs runs along the lines of protecting new or "infant" industries which will soon outgrow the need for protection, and once having reached a size and stage where they can compete with foreign producers will contribute to the wealth and growth of the country. This point of view has a good deal of validity in the framework of economic analysis, although in specific cases the infant industry sometimes fails to grow up.

There are other reasons adduced for the imposition of tariffs—reasons of security, promotion of growth, retaliation, the necessary price for political independence—some historians point out that in the absence of a tariff, Canada might well have been in danger of becoming, if not the thirteenth colony—at least the forty-ninth state. These are points of view that transcend the boundaries of economics proper into areas in which the expert and layman alike are entitled to an opinion and an equal vote.

To the economist, as such, the argument in favour of free trade is a powerful one. It is that resources should be so allocated that we achieve the maximum of output with the minimum of effort. Foreign trade permits us to sell to others those things that we can produce most efficiently and in return to buy from others those things that they can produce more cheaply. In the long run, and without tariffs here or in any other country, we would all be better off. But we live in the short run, and both Canada and other countries have tariff structures. Changes there will be and should be, but these must be made carefully and after due consideration.

Abraham Lincoln, who disclaimed any knowledge of the tariff, was once reported to have remarked—"If I buy a suit of clothes from an Englishman for $60, I have a suit and the Englishman has $60. But if I buy from an American, I still have a suit and the *American* has the $60." What is neglected, is that without a tariff, the price might be only $50 and Lincoln would have $10 to spend on something else. This, however, would be small consolation to the domestic clothier, who, at first anyway, would be out of a job. If our system worked more perfectly, then our clothier could look forward to a better-paying job producing wheat or oil.

RECENT TRENDS AND DEVELOPMENTS IN WELFARE PLANS*

By J. E. Stephen,
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With the increasing participation of government in welfare planning and the trend toward more social security, the present welfare plans are rapidly assuming new proportions. In this article, the author outlines the latest developments in group life insurance, weekly income insurance, pension plans, major medical insurance and gives a brief run-down of the current situation in provincial hospitalization plans in each of the ten provinces.

For convenience I will deal with the various types of benefits in the order in which they appear in most employee booklets. First—group life insurance.

There is a trend towards providing larger amounts of group life insurance. Many group life insurance plans now provide an amount of insurance equal to twice the employees' annual earnings with a maximum as large as the underwriter is prepared to offer.—WHY?—Most employees do not carry as much life insurance as they should have or would like to have. Group life insurance is relatively inexpensive, and since the employer's contribution is an expense for tax purposes while the employees' is not, whether it be for group life or for ordinary life, it is an efficient arrangement for tax purposes. Better to provide an employee with a benefit than to provide him with the money with which to buy the benefit if he first has to pay income tax on the money which he receives.

Further, since group life insurance ceases on termination of employment, a generous benefit could discourage an employee from terminating.

Providing larger amounts of insurance has, however, made it important that the employer's money not be spent to provide substantial amounts of protection where there is no real need for protection. There is, therefore, a growing number of plans under which employees with dependents are eligible for more insurance proportionately than are employees without dependents. One recently established plan provides married employees with an amount of insurance equal to approximately twice their annual earnings while employees without dependents are covered for an amount equal to approximately once annual earnings.

Another development in the field of group life insurance is the introduction of group paid-up life insurance. This is a plan under which the employees' own contributions are used to purchase amounts of paid-up life insurance. The employer's contribution pro-

*An address delivered on September 25, 1958 to the Eastern Townships of the Society of Industrial and Cost Accountants Chapter.

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vides ordinary group life insurance—that is, term insurance sold on a group basis. The main purpose of this type of plan is that it solves the problem of what to do about group insurance after retirement. It also provides the answer to the objections of employees who claim they receive nothing on termination of employment. Such an employee would receive a paid-up policy or cash at least equal to the amount of his contributions. Because of this cash refund principle, this type of plan appeals to female employees since it can operate for them as a savings plan.

Many companies now continue part or all of the group insurance after retirement. The continuation of any amount of insurance can ultimately be very expensive. Since the cost of insurance is related to the age of the insured, as the number and average age of retired employees increase, the cost of giving them insurance protection will increase.

Recently I was discussing a client's group life insurance plan with him. This company had been continuing insurance without any reduction after retirement. The group was composed of 120 employees—approximately 100 active—20 retired. Of the total premium, 60% was attributable to the 20 retired employees.

The proponents of group paid-up life insurance claim that this type of plan solves the problem of what to do at retirement because by the time he retires, an employee has accumulated a fairly substantial amount of paid-up life insurance.

HERE IS AN EXAMPLE OF HOW SUCH A PLAN WOULD WORK.

We will assume a man, age 30, joins the plan and is covered for $1000—and his contribution is one dollar per month.

	EMPLOYEE	EMPLOYER (THE BALANCE)
1st Year........	—	$1000
2nd Year.......	30	970
3rd Year.......	60	940
4th Year.......	80	920
10th Year......	260	740
20th Year......	480	520
35th Year...... (Retirement)	740	260

At retirement this employee would have a paid-up policy for more than one-half of the amount which had been carried on him prior to retirement.

At the beginning this type of plan would be more costly to the employer than is the more usual type of plan. However, as time goes on, the balance provided by the employer grows smaller—and it tends to grow smaller at a time when insurance becomes more costly. It is therefore claimed that over a long period this type of insurance is no more costly than is the ordinary group life insurance.

WEEKLY INCOME INSURANCE

Under the standard weekly income benefit, in the event of sickness or accident, an employee is provided with a weekly payment for 13 weeks, 26 weeks or, in some plans, 52 weeks. The benefit is usually payable from the first day in the event of accident and, to prevent abuse, from the fourth or the eighth day in the event of sickness.

This benefit provides worthwhile protection for the common illness or accident where recovery normally takes place within a matter of weeks. The protection is inadequate in the case of a long-term disability and for this purpose a relatively new form of insurance has been developed.

Under long-term or extended disability insurance the benefit does not become payable for six months, a year or even 18 months after the disability occurs. If the disability continues past this waiting period, payments related to salary begin and continue until the employee recovers or until normal retirement age, whichever comes first. If the employee is still disabled when he reaches normal retirement date under his employer's pension plan, he would receive his pension without having had the actuarial reduction which normally is applied in the case of early retirement.

Although the need for this type of insurance is not restricted to salaried employees it is, at this stage of its development, being presented primarily as a benefit for salaried employees. If a salaried employee, particularly one in a senior position, should become disabled his salary would probably be continued for up to a year without question. However,there is usually no guarantee that such payments will be continued since they are usually made at the pleasure of the management or the Board. Extended or long term disability insurance puts salary continuance on a clear cut basis—guaranteed.

Since the incidence of claims would probably be small (the waiting period), the cost of providing this benefit is not substantial.

PROVINCIAL HOSPITALIZATION PLANS

Probably the most significant recent development in the area of hospital-surgical-medical benefits is the introduction of provincial hospitalization plans.

On April 10, 1957 the Federal Government passed the "Hospital Insurance and Diagnostic Services Act." Briefly, the Act stated that the Federal Government would provide financial assistance to any province which established a hospital insurance plan, provided that:

(a) The hospital plan was available to all residents, regardless of means.
(b) The hospitals must maintain adequate standards.
(c) Once the resident had paid any premium or tax the province might care to charge, he must be provided with "free" hospital care at the standard ward level, hospital nursing services, drugs and all other services and things provided in hospital to both in-patients and out-patients.

Incidentally, the Federal Government had to go about it in this way since, by the terms of the B.N.A. Act, hospital and hospitalization are things that remain under provincial jurisdiction.

Before the Act could become effective, Ontario and/or Quebec and five other provinces would have to agree to participate.

Four provinces, British Columbia, Alberta, Saskatchewan and Newfoundland already had provincial hospital plans in effect.

Newfoundland's plan required amending so that it applied to all residents. Prince Edward Island and Ontario accepted the terms quite soon after the Act passed so that it became effective. Originally the Government's offer contemplated January 1, 1959 as the effective date. However, the present Government advanced the date to July 1, 1958 for any province which wanted to make its plan effective on that date.

Moving from west to east the situation at present is as follows:

British Columbia

Original plan effective January 1, 1949—qualified for Federal aid July 1, 1958 — The plan originally was on a premium-paying basis but this was abandoned in favour of a sales tax. Now sales tax with $1 per day co-insurance.

Alberta

Original plan effective June 1949—qualified for Federal aid July 1, 1958—no tax—no premium. Co-insurance $1.50 to $2.00 per day depending on number of beds in hospital.

Saskatchewan

Original plan effective January 1, 1947—qualified for Federal aid July 1, 1958—Premiums, in form of hospital tax

for each self-supporting person or spouse	$20 yearly
for each dependent child under 18	$ 5 yearly
Maximum	$45 yearly

Manitoba

Plan introduced July 1, 1958—Premium $2.05 single, $4.10 family—No co-insurance—compulsory.

Ontario

Plan will become effective January 1, 1959. Supported by premium of $2.10 single and $4.20 married per month. Compulsory for employees employed by a company having 15 or more employees.

Quebec

No announcement other than that it would be premature to install a plan before hospital facilities are available.

New Brunswick

Probably effective April 1, 1959—probably financed by premiums.

Nova Scotia

Will become effective January 1, 1959—probably financed by 3% sales tax.

Prince Edward Island

Not effective for at least one more year.

Newfoundland

Became effective July 1, 1958—no direct premiums or additional sales tax—Newfoundland also provides free surgical and medical attention *in hospital* for children 16 and under.

Because of the differences in the methods of financing, there are problems involved for a company having employees in all provinces. Generally speaking, companies have adopted the stand in the premium-paying provinces that the premium is in the nature of a personal tax and therefore not something that a company should pay.

MAJOR MEDICAL INSURANCE

The introduction of provincial hospitalization plans has given a shot in the arm to major medical insurance. Although there was general agreement that this type of insurance, with its deductible and its provision for co-insurance, should provide the answer to the situation of generally increasing costs and therefore generally increasing premiums, it has not proven to be an acceptable approach. It is fine when treated as icing for the cake by using it in conjunction with a basic plan, but it has not proven to be acceptable if it is to stand alone. Most employees want first dollar protection—and are prepared to pay for it. One of our clients had a situation about a year ago where, because of increasing claims, the underwriter stated that either the premiums would have to be increased or, if the premiums were left unchanged, a $25 deductible on the hospital room allowance would have to be introduced. The situation was explained to the employees and all but a few of approximately 1000 elected to pay an increased premium rather than give up their first dollar coverage.

However, with provincial hospital plans, employees will have a measure of first dollar protection. Hence, it is expected that major medical insurance will become a more acceptable type of coverage.

PENSION PLANS

Now, let's look at pension plans, and I will deal with the various items in the general order in which they appear in most pension plan booklets.

First, eligibility requirements.

The trend in eligibility requirements has been to reduce the service period and minimum age limitations and to increase the maximum age limitations. The main purpose of any age and service requirement is to eliminate the administrative detail and expense of handling the transient turnover.

Eligibility requirements should be so designed that employees become eligible as soon as they are considered to have achieved a status of permanency. We are presently studying a plan which was established eight years ago. The original eligibility requirement called for the completion of five years' service and the attainment of age 30. The company has made a study of its turnover and has found that the majority of terminations occur within the first three years of employment. The eligibility requirements under this particular plan will be changed to completion of three years service and attainment of age 25.

NORMAL RETIREMENT AGE

Traditionally, normal retirement age in Canadian pension plans has been age 65 for male employees and age 60 for female employees. There is an increasing acceptance of the idea that a fixed chronological retirement age is having to be abandoned—WHY?

(1) Many employers are finding that they just can't afford to lose the skills of their older employees.

(2) Many of the pensions accruing at age 65 are so inadequate that employers feel they just can't retire the employee.

(1) and (2) are the immediate problems; the next is something which will become a real problem in the future.

(3) *The increase in life span*—This is a long-term improvement but it does seem that people are living longer. Granted the 65-year-olds have not shown the same improvement as the 5-year-olds, but nevertheless there has been improvement—about two years in the last decade or two.

If people are living longer at one end of the scale—and if the schooling period is being extended at the other end of the scale—then man's working space will have to be moved along.

Consequently, we are finding there is a trend towards recognizing that all employees should not be retired at age 65.

During 1954 the *Labour Gazette* published a series of articles dealing with industrial pension plans. I would like to quote from the article which dealt with retirement policy.

> "The study of retirement provisions in 214 plans indicates that most formal pension plans do not in themselves constitute a barrier to the retention in employment of the efficient older worker. The provisions of the majority of the plans studied are not rigid and inflexible but do allow scope for the exercise of a considerable amount of flexibility in retirement policy. However, the extent to which those who administer

retirement policies make use of optional features in their plans is not known. The continued existence in industrial pension plans of a comparatively early "normal" retirement age is obviously important in that it preserves the worker's freedom to retire if he so wishes. But the trend towards longer life expectancy will make it increasingly desirable, for broad economic and social reasons as well as from the point of view of the individual worker and his employer, that the freedom be also retained for the worker to continue on the job if he so wishes as long as he is capable of competent performance, and for his employer thus to benefit by his skill and experience."

Many pension plans have not amended the stated normal retirement ages but have made fuller use of the postponement of retirement provisions. This can, in certain circumstances, be more flexible from the employer's point of view.

There are several ways in which postponed retirement may be handled, but the most satisfactory method appears to be that which permits the employee to continue to be a member of the pension plan until his actual date of retirement. Between his normal retirement date and his actual retirement date, the employee continues to earn pension credits with the result that when he retires his pension will be increased.

Another method of handling postponed retirement is to have all contributions cease at normal retirement age but to have the pension deferred until actual retirement. In this event the pension would normally be increased to allow for the period of postponement. *Of the two methods we would recommend the former.*

The practice of having an employee's pension commence on his normal retirement date if he continues to work for his full earnings is one which we think should be discouraged. One, because under most plans he is wasting the guarantee that, in the event of his death, pension payments would continue to his beneficiary. Two, because he would receive an increase in total income at a time when he should be preparing to adjust to living on a reduced income.

DEATH BENEFITS

A contributory pension plan must provide for a refund of the employee's own contributions, with or without interest, in the event of his death prior to retirement. It is certainly more common and more attractive to credit the employee's contributions with interest, and this interest rate should probably be slightly in excess of prevailing interest rates being paid by banks on savings accounts.

The death benefit should not include any part of the company's contribution. There are several basic objections to this type of benefit, as follows:

(1) It is not in accord with the basic purpose of the plan—which is to provide pensions.
(2) It is normally a very expensive frill—amounting to as much as 20% of the employer contributions.
(3) Because death benefits out of a pension plan are subject to income tax, it is better to provide death benefits out of a group insurance plan as such benefits are not subject to income tax.

A feature which has gained in popularity in recent years in Canada, is the provision of death benefits before and after retirement in the form of widows' and children's pensions rather than lump sum payments. Undoubtedly this development will continue and may

represent one of the more significant trends over the next few years. However, the provision of adequate widows' pensions may prove to be a fairly costly item.

A typical widows' and children's pension formula would provide a deceased employee's widow with half of the pension which the deceased employee had accumulated up to date of his death. It is almost universal practice to provide that the widows' pension will cease upon her remarriage.

PENSION BENEFITS

A pension plan wherein an employee's pension benefits are calculated as a percentage of his earnings may base the amount of his pension on his total earnings while a member of the plan, or may base the amount of his pension upon his earnings during a relatively short period of time immediately preceding retirement, usually five or ten years. Obviously, the "final earnings" type of plan is more realistic but, equally as obviously, it is likely to be more expensive. On the other hand a plan based on total career earnings, while providing benefits which might be considered reasonable at the time of its inception, may produce benefits which are ultimately inadequate because of the effect of inflation.

It is difficult to predict the ultimate difference in the costs of a career average earnings plan and a final earnings plan. This difference will depend largely on two factors, only one of which may in any way be controlled by the individual company. The controllable factor is the rate of increase in the employees' earnings resulting from promotions, increased responsibilities, and acquired seniority. The uncontrollable factor is the extent of the inflationary trend of the nation's economy.

While a final earnings plan will provide most members with a larger pension than a career average earnings plan, if the percentage benefit is the same in both, the difference in the levels of pension will be most marked in the case of an employee whose salary increases are greatest.

There are a substantial number of final earnings pension plans in Canada. The pension plans covering the Canadian Civil Service, the Railways, the Chartered Banks, and many of the large insurance companies are of this type. To fund a final earnings pension plan properly, it is necessary to estimate future wages and salaries. As insurance companies are unable to incorporate salary progression scales in their premium rates, final earnings plans are difficult for them to underwrite, with the result that practically all pension plans of this type are underwritten on a trusteed basis.

The definition of an adequate pension for a lifetime of service is generally taken to be 50% of an employee's final earnings including any pension provided by the State.

However, more generous pension plans are in existence and the Department of National Revenue has approved plans providing maximum benefits of 70% of final earnings.

In our opinion, however, the ideal plan is one which not only relates the pension to final earnings, but also keeps pace with the cost of living index throughout retirement.

The realization that pensions should keep pace with the cost of living after retirement is probably the most significant development in pension planning in recent years. Life expectancy at 65 is 13 years—the cost of living can change very appreciably in such a period of time.

The first plan to attempt to do something about this problem was the one developed by the Teachers Insurance and Annuity Association in the United States. The gentlemen who control that very conservative company, which was set up under a grant from Andrew Carnegie for the purpose of providing pensions for college professors, had seen

the dire straits of professors who had retired in the years prior to the end of the recent war. They realized that none of the then orthodox methods of providing pensions could solve the problem, so after a great deal of careful study and analysis they set up a company or fund known as the College Retirement Equities Fund.

The idea was this—the professors could elect to have up to 50% of their contributions and those of the university on their behalf paid into the Equities Fund. These contributions provided not dollar pensions but units of pension. The value of the unit was governed by the market value of the Fund. Depending on the value of the Fund, a unit could be worth $10 one year, $12 the next year, $15 the next year, $13 the following year and so on—always tending to reflect the cost of living.

The T.I.A.A. people claim that the 50-50 arrangement is necessary—that the retired professors must have the knowledge that whatever happens, at least one-half of their pension will be a certain number of dollars and that the other half will fluctuate.

There are a number of such plans now in operation both in the United States and in Canada.

A refinement of the "Equity" annuity is a plan which ties the amount of pension to the Consumers Price Index. The employee retires on a pension which has been adjusted to the Price Index at his time of retirement and which is adjusted upwards and downwards in accordance with changes after retirement. This type of plan protects the employee from the possibility that the value of equities will not relate to the Index which the equity plan does not do.

FOR FURTHER READING

WELFARE PLANS—ASSET OR EXPENSE, by W. D. Welsford, Cost and Management, May 1957.

REGISTERED RETIREMENT SAVINGS PLANS, by A. K. Eaton, Canadian Tax Journal, May-June 1957.

LIVING WITH WELFARE AND RETIREMENT FUNDS IN INDUSTRY, by Joseph E. Moody, AMA Personnel Series No. 150.

OBITUARY

With deepest regret the Society announces the death of R. S. FitzRandolph, Comptroller General of the Province of New Brunswick and one of the founders of the Fredericton Chapter of the Society. Mr. FitzRandolph died suddenly on August 19th at his home in Fredericton. Born in Fredericton, he was educated in England and attended R.M.C. He was employed with P. S. Ross & Sons, Montreal, before being appointed Assistant Comptroller General of the Province of New Brunswick in 1937 and Comptroller General in 1945. A long-time member of the Society of Industrial and Cost Accountants of New Brunswick and a Charter Member of the Saint John Chapter, Mr. FitzRandolph was also a member of the New Brunswick Institute of Chartered Accountants.

A SIMPLE OPERATING BUDGET CAN BE EFFECTIVE

By Eugene F. Monnier,
Partner, John F. Hartmann & Company,
New Orleans, Louisiana.

An effective operating budget is one of the accomplishments management seeks most often from the accounting department, but one which it seldom receives. This is particularly true in small and medium-sized organizations where there is a limited number of accounting personnel. This article presents a practical illustration of an operating budget application which provides speedy and effective reports to management, yet takes a minimum of the accountant's time and effort.

In some 25 years of public accounting practice, I have found that an effective operating budget is the accounting procedure most often requested by top business executives.

Although accountants boldly claim to be "a part of management", which I certainly feel that they are, the development of an operating budget is one thing which most accountants will "talk around" or avoid if they can. Usually this is so because the available "manpower" of the accounting department is already taxed to the straining point and very few accounting executives are willing to undertake a task which, in their minds, is not only time-consuming in the preliminary preparation but also requires a considerable number of man hours to carry out.

Let me qualify these remarks by stating that I am speaking mainly of a small or medium-sized business operation with a proportionately small accounting department. Relatively speaking, most of our business enterprises are included in this category and this is the business group which most needs the help and guidance of an effective operating budget.

This paper is especially directed to the accounting heads of the small accounting department. In it, we hope to prove that a highly effective operating budget can be established and maintained within the framework of that "overtaxed available manpower", of which we spoke.

We also hope to allay any fears about the size of the task, which is actually only "big" in the mind, by outlining procedures that will:

(1) Require the minimum of manhours of work, probably less than is presently being devoted to unsatisfactory, or at least less effective, efforts to provide the desired results, and,

(2) Provide the essential information sought by most busy executives in the top management group; and furnished in such concise form that it requires the minimum of time to assimilate.

Do not be misled by its very simplicity. Its effectiveness has been proven.

A Certified Public Accountant, Mr. Monnier is a partner in the firm of John F. Hartmann & Company. He has been in public accounting practice as a staff member and partner for 25 years and previously was employed in industrial and cost accounting. He is a graduate of Tulane University, a member and past president of the New Orleans Chapter of the National Association of Accountants, and a member and executive of the American Institute of Certified Public Accountants and the Society of Louisiana Certified Public Accountants.

A FACTUAL — NOT THEORETICAL — PRESENTATION

The following presentation is based on the experience of an actual company though, of course, the names and figures have been changed.

It may help, in evaluating the effectiveness of the procedures outlined here, if something is said of the general type of operation involved and the accounting personnel available.

The company manufactures a single type of product, but in four grades—the production costs of which vary slightly. Fortunately, the percentage of sales of each grade to the total units sold is consistent enough to permit the use of an average production cost per unit without the need of segregation by grades. We say "fortunately", because if the facts were different, some variation in the "cost" determination would have been required. Two producing plants are involved, in different cities, and a warehouse operation is located in a third city, the warehouse sales being made from products transferred from one of the producing plants.

Separate accounting records are maintained for each of the three operating units—which are referred to as "Division A", "Division B", and "Division C", but all general accounting records are kept at the head office.

The production, or "on-the-floor", unit cost varies in each division to such an extent that it is necessary to make separate "predetermined" manufacturing cost each year for each division, with any variation from the "predetermined" cost being treated as a "variance", which will be subsequently discussed.

The accounting personnel is limited, with the work time of practically each individual devoted to duties other than budgetary controls.

Distribution or sales costs are uniform for the four grades of products sold, but vary with each division.

The business is seasonal, with two-thirds of the annual sale volume being obtained in six months of the year.

PRELIMINARY BUDGETARY EFFORTS

Because of the seasonal nature of the business, there are months of normally low sale volume with little or no profits. Three of the lowest volume, and consequently lowest profit months are at the beginning of the fiscal year of the company, with a gradual build-up, followed by another seasonal decline.

The active officers of the corporation were always uneasy during the early months of the year with only "low earnings" statements before them and at the first two meetings of the Board of Directors, which met quarterly, it was very difficult to convince the "inactive" members that satisfactory progress was being made.

To meet this problem, and in an effort to control rising expenses, it was decided to install an operating budget.

The first operating budget was prepared in detail.

Monthly sales quotas were prepared for each division. Detailed expense budgets were prepared, also by months, for each division with break-downs for each segment of divisional operations—Manufacturing, Warehousing, Selling and Delivery, and Administrative, with a monthly allocation for each account under the various sub-headings.

A monthly comparison was made of the actual amount of each expense with the budgeted amount and the variances shown in detail. This required additional personnel, with a resultant increase in accounting expense.

The monthly reports to management were such a maze of figures, with over and under variances, that the effect was lost. There were just too many figures for a busy top executive to assimilate and very soon the monthly reports, containing information assembled with so much effort and so much cost to the accounting department, were being cast aside after a quick comparison of sales volume and profits.

Too, management began to complain of the increased time lapse between the close of the month and the date the reports were available.

The result was a very unhappy situation for all concerned. Management was ready to scrap the entire budget idea, but felt the need for information it could use to measure progress and control costs or pin-point the increases—all to be furnished soon after the end of each month.

THE EVOLUTION OF A SIMPLE BUDGETARY CONTROL

Faced with a nearly unbearable situation—with management dissatisfied with the information it received and constant complaints about delayed monthly reports in spite of extreme efforts and a heavy additional work load, the accounting department requested outside assistance.

Consultations with top management executives were held and the following was approved by them as a summary of what they desired:

1. Advance sales quotas, by months for full year, for each division.
2. Advance earnings projections, by months for a full year, for each division.
3. A monthly preliminary report, to be received within five days after the close of the month, showing a comparison of actual sales with quota sales and a reasonably correct estimate of earnings, compared with budget—also by divisions.
4. A monthly final report, to be received within ten days after the close of the month, showing a comparison of actual and budgeted earnings for the month and year to date, by divisions, with an accounting for major variances.

At first glance, the task appeared to be Herculean, especially with respect to the time element.

All general accounting records were maintained at the site of the larger manufacturing plant. Daily reports were received from the other two operating centres through the mails, with a normal time lag of about 48 hours. A strictly adhered-to deadline for mailing reports was necessary, but that had already been in effect. General accounting records were maintained on a current basis. All entries for monthly charges were made as early as possible and generally a trial balance was available on the fourth or fifth working day following the close of the month, with sales figures generally available on the third day. Control accounts were maintained for Income and Expenses of each division and a simple subtraction of the balance in the latter account from that in the former would provide the amount of "earnings to date." Details of income and expense items were maintained in subsidiary ledgers.

With these accounting practices established, a new approach to the earning budget problem was undertaken.

The first step was to establish a "monthly break-even" volume for each division. During the past few years, several excellent articles have been published outlining procedures for determining a "break-even point". In the present case, a simple procedure was followed which proved most accurate. This was done in steps, as follows:

STEP ONE:

The actual operating expenses of the previous year were detailed on a work sheet and then adjusted, up or down, for any unusual expenses in that year and for any known changes that would affect the year for which the budget was being prepared. The adjusted amounts, as nearly as possible, would represent normal operating expenses under conditions then existing, and those amounts were used as the budgeted amounts for the ensuing year and spread (on the work sheet) over the 12 months as it was anticipated they would be incurred. It may be well to state at this point that the total adjusted amount was used in the establishment of a monthly break-even volume, which break-even volume is used during the entire year, and the details are only used to locate expenses with major variances. As stated, the break-even volume, once established for the year, is used during the entire year, even though changes occur in raw material costs, thereby affecting net earnings. The effect of changes in raw material costs, if material in amount, are subsequently shown as an "uncontrollable variance."

This work is done near the close of each year in preparation for the succeeding year's budget but, as memoranda of unusual items or changes requiring adjustments are accumulated during the year, the preparation is fairly simple and takes very little time.

STEP TWO:

The next step was to determine the raw material cost per unit manufactured. As previously stated, in the present case this could be done satisfactorily on the basis of an average per unit by dividing the total cost of raw materials, as adjusted in Step One, by the total units produced.

Generally there are other costs, of a fixed nature, which attach directly to units sold. In this example, one such expense was sale commissions, which were paid on the basis of units sold, and there were also two others.

The raw material unit cost and the three other unit costs mentioned in the preceding paragraph were added together to arrive at a total unit cost which, for lack of a better name, we will call the "basic unit cost".

The "basic unit cost" was then subtracted from the average unit sale price. We will call the figure thus determined the "margin between basic unit cost and unit sale price."

STEP THREE:

The first operation in Step Three was to determine the dollar amount to be absorbed by the "margin between basic unit cost and unit sale price" before any profit is earned. This was done by simply subtracting the dollar amount of costs and expenses used in computing the "basic unit cost" in Step Two from the total of adjusted cost and expenses as determined in Step One.

The next operation in Step Three was the final determination of the break-even volume, which was done by dividing the dollar amount to be absorbed by the figure referred to in the preceding paragraph as the "margin between basic unit cost and unit sale price." *We now had the two essential figures required:*

1. The break-even unit volume, and,
2. The unit value to compute profits earned on sales in excess of the break-even unit volume or loss on sales under the break-even unit volume.

Other methods of producing the two essential figures above (as outlined in the many articles published recently on this subject) could be used with equal effectiveness.

Since, in this case, we were to present separate earnings comparisons for the three divisions, it was naturally necessary to make separate computations of the two essential factors for each of the three divisions.

Also, since we proposed to report monthly, we reduced the annual break-even volumes to monthly figures by dividing by 12.

THE PROCEDURE IN OPERATION

The first step was to set up monthly sales quotas for each division by months. This was done with the assistance of the sales executives of each division.

With the sales quotas (in units) available by months, we could compute the budgeted earnings or losses, by months, by multiplying the figure of unit quota sales over or under break-even volume by the unit profit value—which is the "margin between the basic unit cost and the unit sale price."

The underlying principle can be stated simply as follows:

1. The basic unit cost will be incurred on all units sold.
2. The excess of unit sale price over basic unit cost must first be used to absorb all operating expenses other than those classified as basic unit costs. These other expenses will be fully abosorbed at the break-even point, so that all sales over the break-even volume will produce profits at a unit rate equal to the excess of unit sale price over unit basic cost.

Immediately prior to the beginning of the year, a schedule is prepared for each division (as illustrated in Exhibit A) showing the projected sales quotas for each of the 12 months and the projected earnings for each month. This satisfied Nos. 1 and 2 of management's requirements.

Within the five day time limit set by management, the actual sales figures are available for each division.

A comparison with the sales quota is, of course, a simple matter requiring very little time to set up in schedule form.

A computation of a "reasonably correct estimate of earnings" is also a simple matter, once the actual sales volume for the month is known. The unit excess of actual sales volume over break-even sales volume is multiplied by the unit profit value to produce an amount of earnings which would be correct if operating expenses were the same as those forecast in Step One. There will naturally be some variances and the accounting department is on the alert, during the month, for any unusual expenses (in nature or amount) which are accumulated for the end-of-the-month use. Also, a quick comparison can be made of the major expense accounts in the Expense Ledger with the amounts set up in Step One in the preparation of the forecast.

Any required adjustment to the amount of indicated earnings is made and the preliminary report, management's requirement No. 3, is available—well within the time limit set.

Within the ten days allowed for requirement No. 4, actual earnings are known. As previously stated, control accounts are maintained for Income and Expenses and to determine profit immediately after the monthly trial balance is completed is a simple matter.

A monthly final report (illustrated in Exhibit B) is prepared for each division.

As stated, the preparation of the final report is a simple matter and requires very little time. All information is immediately available for the sales and earnings comparisons. Accounting for the variations required very few simple computations. As shown, unit sales for the month of April were 13,510 units in excess of quota. With a unit profit of 30c each, the additional sales should have produced additional profit of $4,053.00 whereas the actual profit was only $2,948.70 in excess of budget. Expenses then were $1,104.30 in excess of budget. A review of the actual expenses of the month would be made in comparison with the monthly figures distributed in Step One. Major variances, showing the department responsible, would be shown at the bottom of the sheet.

Thus, management has all the information it desires and well within the maximum time limit set. The additional burden on the accounting department is negligible and the reports are prepared with little time lost from normal operating functions.

In the present case, the procedures have been in effect for several years during which time refinements have been made which have resulted in forecasts and preliminary reports of surprising accuracy.

Similar installations have been made for other companies and, while each company has individual problems to consider and overcome, experience has proven that an efficient budgetary control system can be installed in small or medium-sized operations with very little additional burden placed on the accounting department.

GENERAL OBSERVATIONS

In closing, it may be well to mention a few sidelight developments in this example.

As previously stated, the monthly sales quotas are set through consultations with the sales executives of each division. Since the quotas are subsequently used to measure the "productivity" of the sales department, the sales executive is never over-optimistic and will try to avoid setting too high an estimate. On the other hand, he is well aware that his estimates of increases for his area will be measured against the estimates of the sales executives of the other divisions and against his own past performances, so he will not go too low, or so low that he will be called upon to explain his low quotas to the chief executive. Once the quota is set, he must "live with it" for the rest of the year and he will exert every effort to attain or exceed the quota. He, in turn, sets quotas for the sales personnel under his jurisdiction, resulting in maximum sales efforts right down the line.

It will be noted that the monthly report (Exhibit B) gives full credit to the sales department for its contribution to company earnings. In the illustration shown, the sales department contributed an additional $4,053.00 in earnings for the month by exceeding the sales quota.

Also shown in the illustration is the fact that $1,104.30 of earnings were lost through increased expenses in the month of April. All of the figures are, of course, theoretical and as used herein are only for illustrative purposes.

Certain operating department heads are also consulted in the preparation of the budget forecast and, where warranted, adjustments are made in the operating expenses of their departments. Once approved, they too have to "live with" the budget figures for the rest of the year. They are, then, conscious of any unusual or unanticipated expenses incurred during the year and frequently bring such items to the attention of the accounting department.

When completed, the budget forecast is presented to the chief executive officer. He reviews it, frequently consulting others whose opinions were used in its preparation. Sometimes changes result but, once he has approved it, it becomes his yardstick for measuring results. Again by reference to Exhibit B, it will be seen that at April 30, 1958 the actual earnings for the four months were $8,948.70. With one-third of the year gone, some uncertainty could develop that in the rest of the year the ultimate earnings goal of $129,000.00 for the year could be obtained. Yet the $8,948.70 earned to date is in excess of the $6,000.00 budgeted, so that the earnings to date are satisfactory in relation to that budgeted.

The annual forecast of sales and earnings (Exhibit A) is presented to the Board of Directors at its first meeting of the year. Thereafter, current comparative statements, actual with budget, are presented to the Board and, to the Board also, the comparison with budget has come to mean a measurement of progress.

So, we feel that we can close with the statement—a simple operating budget can be effective.

Exhibit A

Division "A"

SALES QUOTA AND EARNINGS BUDGET FOR THE YEAR ENDING DECEMBER 31, 1958

	SALES QUOTA (UNITS)	EARNINGS BUDGET
January	235,000	($ 4,500.00)
February	230,000	(6,000.00)
March	235,000	(4,500.00)
April	270,000	6,000.00
May	310,000	18,000.00
June	330,000	24,000.00
July	360,000	33,000.00
August	385,000	40,500.00
September	330,000	24,000.00
October	280,000	9,000.00
November	235,000	(4,500.00)
December	230,000	(6,000.00)
Total	3,430,000	$129,000.00

Based on a monthy break-even volume of 250,000 units and a profit of 30c per unit on sales in excess of break-even volume.

Exhibit [illegible]

Division "A"

COMPARISON OF ACTUAL SALES AND EARNINGS WITH QUOTAS AND BUDGET

	ACTUAL SALES (UNITS)	SALES QUOTA (UNITS)	ACTUAL OVER OR (UNDER) QUOTA
SALES COMPARISON:			
Month of April.................	283,510	270,000	13,510
Four Months Ended April 30, 1958	1,005,318	970,000	35,318

	ACTUAL EARNINGS	EARNINGS BUDGET	ACTUAL EARNINGS OVER OR (UNDER) BUDGET
EARNINGS COMPARISONS:			
Month of April.................	$ 8,948.70	$ 6,000.00	$ 2,948.70
Four Months Ended April 30, 1958	483.78	(9,000.00)	9,483.78

	ACTUAL EARNINGS OVER BUDGET	ACTUAL SALES OVER QUOTA	VARIATIONS DUE TO EXPENSE (OVER) OR UNDER BUDGET
VARIATIONS IN ACTUAL EARNINGS VS. BUDGETED EARNINGS:			
Month of April.................	$ 2,948.70	$ 4,053.00	($ 1,104.30)
Four Months Ended April 30, 1958	9,483.78	10,594.40	(1,110.62)

FOR FURTHER READING

BRINGING THE BUDGET TO BEAR ON OPERATIONS, by H. T. McAnly, N.A.A. Bulletin, Jan. 1958.

THE BUDGET—MEASURE OF SUCCESS, by V. A. Rydbeck, Cost and Management, July-Aug. 1956

THE BUDGET AS A TOOL FOR OPERATING MANAGEMENT AND CONTROL, by J. Curran Freeman, N.A.C.A. Bulletin, Aug. 1956. Sec. 3.

PERSONALS

H. A. PAKRUL, R.I.A., has been appointed Manager of Atlas Titanium Ltd. Mr. Pakrul is also Cost Accountant at Atlas Steels Ltd., Welland.

D. J. R. POTTS, R.I.A. has been appointed Systems Supervisor for General Foods Ltd., Toronto. Mr. Potts, formerly with the City Hall in Hamilton, was a Director of the Hamilton Chapter.

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